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C O N F I D E N T I A L JERUSALEM 004031

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NEA FOR FRONT OFFICE; NEA/IPA FOR WILLIAMS/MAHER/STEINGER;
NSC FOR ABRAMS/DORAN/WATERS; TREASURY FOR
SZUBIN/LOEFFLER/NUGENT/HIRSON; BRUSSELS FOR LERNER; PLEASE
PASS TO USAID FOR KUNDER/MCLOUD/BORODIN

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TAGS: EFIN EAID KWBG
SUBJECT: TEMPORARY INTERNATIONAL MECHANISM: FIRST
CONSULTATIVE GROUP REVIEW HELD

REF: A. STATE 144230
B. JERUSALEM 3933

Classified By: Consul General Jake Walles, Reasons 1.4 (b) and (d).

¶1. (C) Summary: The first meeting of the Temporary International Mechanism (TIM) Consultative Group, September 1, reviewed implementation progress to date. Both Windows II (provision of fuel to health, water, and sanitation sectors in Gaza) and III (allowances) have been implemented fully by the TIM's European Management Unit. Under Window I, the World Bank has received donor funding for its Emergency Services Support Program (ESSP) but has not yet signed a grant agreement with the PA Presidency or begun disbursement. EconChief presented USG concerns about the extension of the ESSP beyond the Quartet-approved health sector pilot project and the TIM payment of allowances based on PA employment and urged the adoption of a broad needs-based approach. European donors expressed support for the TIM and for its expansion beyond its initial three-month mandate. The European Commission chair of the meeting said he would brief European Commissioner Ferrero-Waldner on the outcome of the meeting and she, in turn, would then raise the TIM's review with Quartet members. End summary.

Window I: ESSP

¶2. (C) World Bank Country Director David Craig briefed on the ESSP. He confirmed that funding of USD 19 M had been received from the European Commission (USD 12.58 million), DFID (USD 5.5 million), and Austria (USD 1.2 million). Both DFID and Austria had earmarked their contributions for the health sector, Craig said. The World Bank anticipated the following pledges: Spain (USD 12.58 million), Sweden (USD 6.1 million), Belgium (USD 3.2 million), and DFID (a second payment of USD 5.5 million for water, electricity, and sanitation). With USD 46 million already pledged or delivered, Craig estimated that a total of USD 56 million will be needed for a six-month budget, if water, electricity, and sanitation are included along with non-salary expenditures of the Ministries of Health, Education, and Social Affairs. Germany, Norway, and Ireland are also interested in the ESSP but have not issued firm pledges, according to Craig. Craig said that the Bank hoped to sign a grant agreement with the PA Office of the President by September 10. He said that the Bank should be able to start disbursing in September at the rate of USD 3-5 million per

month which will increase to USD 5-7 million per month by the end of November when payments for procurements begin.

Window II: IERC

¶3. (C) TIM Management Unit head Hans Duynhouver briefed that 13 million of the original 40 million euros in European Commission funding had been disbursed (including 6 million euros for the Gaza Power Plant before the June 28 airstrike). He confirmed that 5.5 million liters of fuel had been provided to 213 different points of delivery in Gaza, including public and NGO hospitals, primary healthcare clinics, and water and sanitation systems.

Window III: Allowances

¶4. (C) Duynhouver confirmed that 11,562 health workers had received an initial payment and would receive a second payment, starting September 4. He described the average payments as NIS 2000 and said that payments were based on the following formula: a minimum payment of NIS 1400 plus 50 percent of the monthly salary above that amount. He said each of the two disbursements to healthcare workers totaled 4.1 million euros, for a total payment of 8.2 million euros.

¶5. (C) On needs-based allowances, Duynhouver said that the TIM Management Unit had focused on finding a concept that would not take long to implement but that was transparent, accountable, and able to be audited. The concept involved two groups receiving a flat-rate allowance of NIS 1500: (a) "low income cases" of civil servants (50,000 total) and pensioners (8,000 total) that had experienced a sudden and sharp decrease in purchasing power and who normally received

monthly salaries/pensions totaling less than NIS 2000 and (b) "social hardship cases" on the Ministry of Social Affairs' list (40,000 total). Duynhouver estimated that allowances going to 98,000 beneficiaries, with an average family size of six, would actually benefit 600,000 Palestinians or about 20 percent of the population. Duynhouver said that, as of September 1, 43,000 "low income cases" had received allowances totaling 11.5 million euros. By September 8, he hoped another 7,000 would receive their payment and that the "social hardship cases" would begin to be paid. The TIM Management Unit's objective is to complete the disbursements before the start of Ramadan. Meeting Chair Richard Weber of the European Commission noted that, by the end of September, the Commission will have spent 33 million euros of the original 40 million euros under Window III. After deducting bank fees, he anticipated only having 5 million euros remaining, not enough for a further round of allowances.

Comments from PA Presidency

¶6. (C) Khaled Zeidan, from the office of the Economic Advisor to the PA Presidency, commented that the Presidency hoped that disbursements from the ESSP could be accelerated, given the emergency situation, and urged that the program be expanded to water, electricity, and sanitation. On Window II, Zeidan said the PA Presidency hoped that coverage could be expanded to cover utility payments for certain groups or geographic areas. On Window III, he said the PA Presidency was pleased that allowances are starting to reach beneficiaries and appealed for the Police to be treated as civil servants and, thereby, eligible for needs-based allowances. Richard Weber noted that it is a political matter whether security service members would also be considered and noted the European Commission's concerns about funding security service members and terrorism. He said he would raise the matter with European Commissioner Ferrero-Waldner and that it would likely need to be discussed at the level of the Quartet.

Reaction to USG statement

¶ 17. (C) EconChief and Acting USAID Missing Director noted USG support of the TIM effort and commended the TIM Management Unit's efforts to get the mechanism up and running. EconChief outlined USG concerns about the expansion of the ESSP beyond a health sector-only pilot project approved by the Quartet and noted that payments in areas outside of the Quartet-approved parameters could affect the USG's willingness to extend the mechanism at its three-month evaluation. On Window III, she noted that from a policy and regulatory perspective, the U.S. government cannot support the provision of allowances based on PA employment and urged the adoption of a broad needs-based approach as the best way forward for the TIM and that establishment of such a mechanism would be a central consideration as the USG evaluates whether to extend the TIM.

¶ 18. (C) In response, the World Bank's David Craig said he would relay USG comments about the expansion of the ESSP beyond the Quartet's vision to the World Bank President. He said that the ESSP is a continuation of an earlier Bank multi-donor trust fund program and is not specific to the TIM. He articulated that the Bank had continued all of its programs, post-PA government hand-over, since it had received an OFAC general license and no donors had raised concerns about Bank activities. Weber noted that the European Commission had decided it could not earmark its contribution to the ESSP since the ESSP is a multi-donor trust fund.

¶ 19. (C) In response to USG concerns on Window III, Weber reacted sharply to the USG position that the needs-based allowance program should be broadened. He focused on the fact that the European Commission cannot provide allowances to security sector employees. EconChief responded that the USG is not advocating that security sector employees should be targeted, rather that PA employment and salary levels should not be used as criteria for choosing which group of individuals to assist. Instead, the program should be broadened and focused on the truly needy. Weber said that if the program is expanded than security service employees would naturally fall into the eligible beneficiary pool.

European donor comments

¶ 110. (C) Great Britain: The British Consul General congratulated the TIM Management Unit on getting the mechanism up and running quickly and asked at what price the fuel was being purchased. The TIM Management Unit said that fuel was bought at the market rate -- one euro per liter.

¶ 111. (C) Netherlands: The Dutch Representative called for a media strategy to broadcast the international community's support of the Palestinian people through the TIM. He also urged renewal of the mechanism if funds are available. The Chair noted that there were indications from Germany, France, and Greece that a total of 30 million euros might be forthcoming. The Dutch Representative asked about the possibility of using frozen PA clearance revenues for the TIM, to which Zeidan responded that the PA Presidency prefers that the frozen PA clearance revenue be transferred to the PA, not through the TIM.

¶ 112. (C) Sweden: The Swedish Deputy Representative asked who would be supplying urgent pharmaceuticals if the ESSP would not be purchasing pharmaceuticals before October. Imad Dweik from the World Bank responded that other donors, including USAID, were donating pharmaceuticals and that WHO is coordinating the various donations.

¶ 113. (C) France: The French Representative announced that France had announced in Stockholm a further contribution of 10 million euros to the TIM, bringing its total TIM pledge to 15 million euros.

Conclusions

¶14. (C) TIM Consultative Group meeting chair Richard Weber of the European Commission concluded that "within the limits of the funds, money had been used fully and well." Aside from the articulated USG concerns (see para. 8), Weber noted that there is overall agreement on the extension of the TIM at least until the end of 2006. He said he planned to brief European Commissioner Ferrero-Waldner who would then consult with EU Foreign Ministers and then Quartet members on how to move forward with the formal three-month review of the TIM.

WALLES